Manitoba Forestry Resources Ltd. (Manfor)

1982/83 Annual Report

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This special edition annual report marks the tenth anniversary of Manitoba Forestry Resources Ltd. (Manfor).

Manitoba Forestry Resources Ltd. is a Crown owned, medium sized integrated forestry complex which will achieve economic stability and commercial viability over the long term. Manfor will also practice exemplary corporate responsibility in employee relations, resource management, corporate citizenship and entrepreneurial thrust by:

LIMITING *financial liability over the short term and achieving commercial viability over the long term.*

CARRYING *out an aggressive and innovative product development and marketing program as a leader in the forest product development field.*

OPERATING *as an autonomous and integrated corporate unit incorporating and achieving shareholder objectives as an integral part of delivery and with policy direction and leadership from a competent, innovative and experienced Board of Directors.*

BECOMING *a model of industrial relations with an active and innovative human resource development program based on effective and creative employee involvement and participation principles.*

MANAGING *human, material and forestry resources with exemplary corporate responsibility and with exemplary concern for the effects of its operations and activity on the economic well-being of the communities and areas in which the corporation exists.*

Chairman's Message

When an industry is in trouble all of the companies within it suffer. Some more than others. When a company within that industry has troubles peculiar unto itself the problems engendered by failing markets are compounded. This was Manfor's situation in the forestry recession of 1982/1983.

As it is pointed out elsewhere in this report, Manfor is a forest products specialist. It manufactures a high strength unbleached kraft paper. At one time it was a leader in this field in North America but for a variety of reasons it had by 1981/1982 lost its critical position in a narrow market.

Manfor therefore entered the forestry recession of 1982/1983 with a severe handicap and the results are shown on the current balance sheet. These events now constitute Manfor's recent past, but they also provide the basis for a recovery strategy.

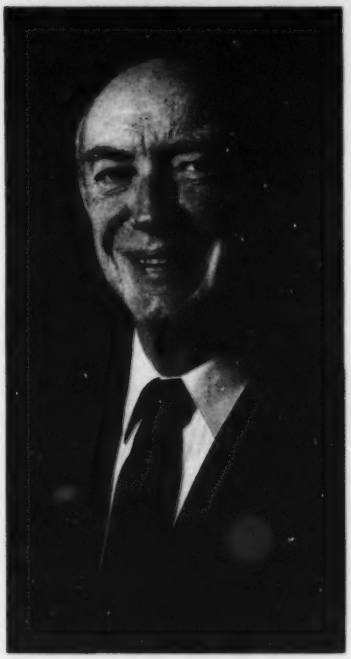
Manfor is now undertaking to regain its position as a leading manufacturer of high strength multiwall unbleached kraft in North America. It believes there will be a continuing market for that product and it believes that given the proper technological inputs it can capture a good portion of the new speciality market. Manfor has an unequalled high strength fibre base. It will use that raw material advantage to create paper and lumber products of superior strength and quality. To this end Manfor has begun a retrofit program in both its paper and lumber mills. These events constitute Manfor's present and they are aimed at maintaining its market niche in unbleached kraft paper and high strength lumber.

If Manfor has learned anything from past experiences it has learned that no market nor market position is permanent. Markets are dynamic and in the forest industry they are intensely dynamic. For a corporation to maintain an appropriate attitude toward such a market it must adopt a strategy. The Manfor strategy consists of what might be called the three "R's" of corporate recovery; retrofit, reorganize and recapitalize. Of course, the principal characteristic of the term dynamic is that of change. This means that although Manfor is presently retrofitting, reorganizing and recapitalizing these are no longer, as they might previously have been understood to be, "one time" events. Being in tune with a dynamic market requires constant attention to those things that permit a company to have an optimum ability to adapt. A solid technological and product development plan, an organization culture and process that maximizes the potential of people and a strategic reinvestment schedule are the central components of a capacity to adapt. These ideas and events are what constitute Manfor's future.

Someone has said, "you can run into debt but you have to crawl back out." These cryptic words aptly describe the situation in the forest industry generally and Manfor in particular. As in any high stakes venture, constant attention to critical events and sequences coupled with shareholder support and understanding can lead to high returns as well. Manfor exists in an industry that is paying a high price for circumstances that while largely beyond control were also largely unanticipated. Forestry firms who have now learned the fine art of anticipation will be the winners of the future. Our intent is to ensure that Manfor is one of them.

MURRAY O. HARVEY
Chairman of the Board

Incoming President's Message



As an introduction, I am impelled to tell you that I spent many of my younger days in Manitoba as a student in Winnipeg, as a tradesman in Portage la Prairie and as an Officer in the R.C.A.F. at Souris and later at Rivers. I am delighted to be back.

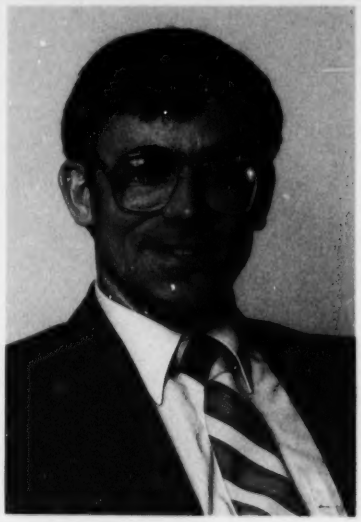
My return to the Province was prompted by the exciting opportunity to join Manfor and its employees in the challenge of modernizing the physical plant and re-inforcing Manfor's place in the forest industry.

I join the Company with two firm convictions: that Manfor will be developed and will grow in a significant way to the benefit of all Manitobans and that its plans for the future have the full support of its Board, shareholders and, in fact, the 1,000 individuals whose livelihood is directly tied to Manfor's success.

As individuals, singly and collectively, we must look to the challenge of today and plan for the future. We have only opened the door to the potential use of the capacity of the renewable resource entrusted to Manfor by the people of Manitoba. I intend to expend my energies and utilize the knowledge and experience gained over some forty years in the industry, to direct and assist Manfor in achieving its objectives.

J. B. SWEENEY
President and
Chief Executive Officer

Letters of Transmittal



Winnipeg, April 3, 1984.

To Her Honour
The Honourable Pearl McGonigal
Lieutenant-Governor of the
Province of Manitoba

May It Please Your Honour:

I have the honour to submit the Annual Report of Manitoba Forestry Resources Ltd. for the year ended September 30, 1983.

Respectfully submitted,

HONOURABLE JERRY STORIE
Minister Responsible for
Manitoba Forestry Resources Ltd.

The Pas, April 2, 1984.

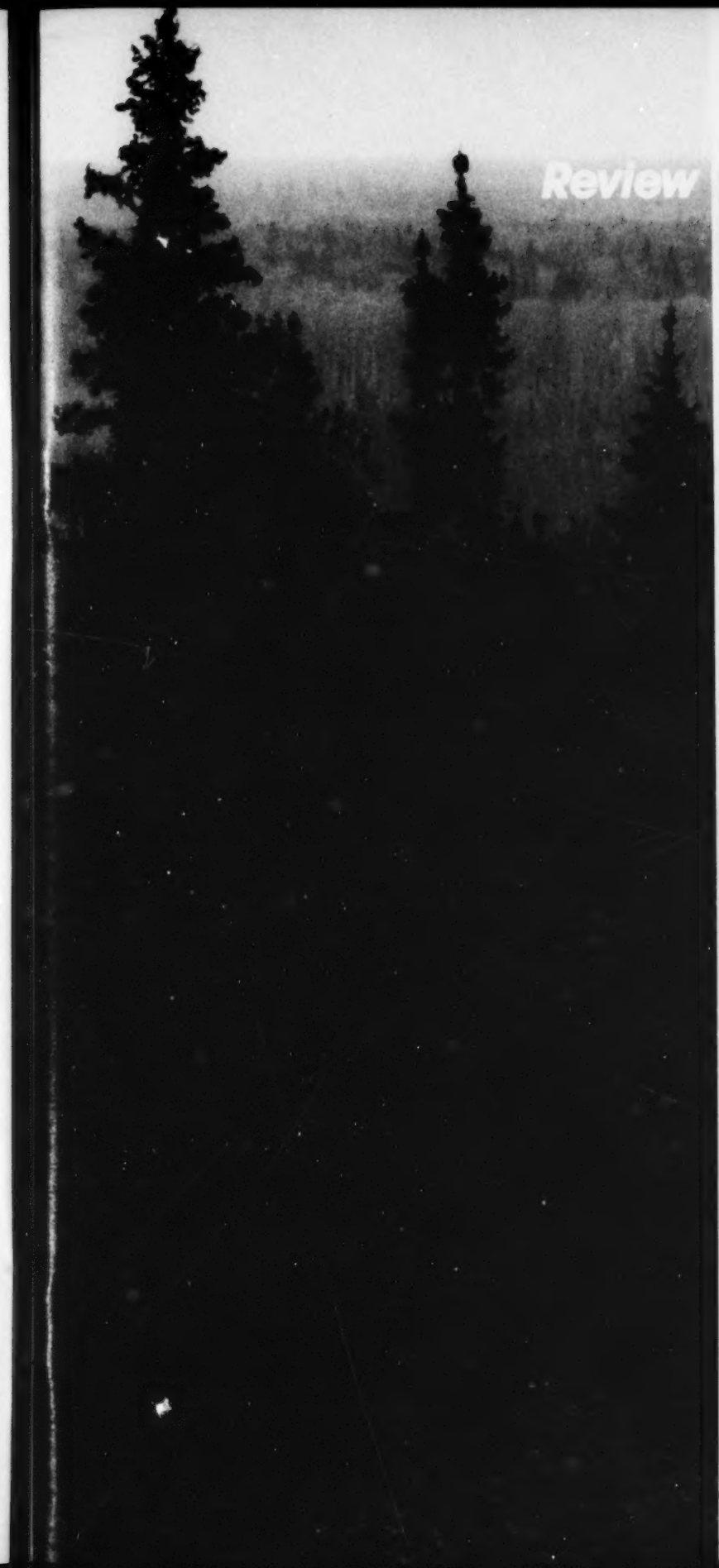
Honourable Jerry Storie
Minister Responsible for
Manitoba Forestry Resources Ltd.

Sir:

In accordance with Section 8(1) of The Manitoba Natural Resources Development Act, I have the honour to present the Annual Report of Manitoba Forestry Resources Ltd. for the fiscal year ended September 30, 1983.

Respectfully submitted,

MURRAY A. HARVEY
Chairman of the Board
Manitoba Forestry Resources Ltd.



History

Manfor was organized in 1973 to help Manitoba realize the potential of its vast tracts of underdeveloped boreal forests in the north central portion of the Province and to provide jobs to local residents in an area of high unemployment.

Compared to most commercial forests, the sparse stands of small, slow-growing trees were considered unsuitable by others for a successful forestry operation. Nevertheless, by concentrating on the inherent strengths of its resource base, Manfor has earned respect in the highly competitive North American and world forest products markets as a producer of superior quality unbleached kraft paper and pulp and dimension lumber.

Over the last decade, Manfor has achieved total overall sales of over half a billion dollars. In the grades of paper produced by Manfor, its sales account for 60 per cent of the total volumes purchased within Canada.

The Company

Manfor consists of three operating divisions. The Lumber and the Pulp and Paper Divisions complement each others' operations at the mill-site near The Pas, utilizing the forest which is harvested by the Woodlands Division.

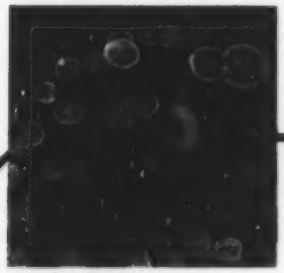
Manfor enjoys almost total self-sufficiency, producing a substantial part of its own energy. A typical log for example, goes partly to lumber, partly to pulp and partly to fuel with waste reduced to a minimum.

Further optimization of energy usage continues to be given high priority.

Manfor makes optimum use of its resources by utilizing as much as possible of each log harvested.

Woodlands Division
- ***forest management***
- ***harvest***
- ***transportation***

logs



Lumber Division

Wood waste from lumber division becomes raw material (chips) for pulp and paper. Wood waste from both mills becomes fuel in the power centre in the pulp and paper division, from which steam heat and electricity is supplied to the entire complex.

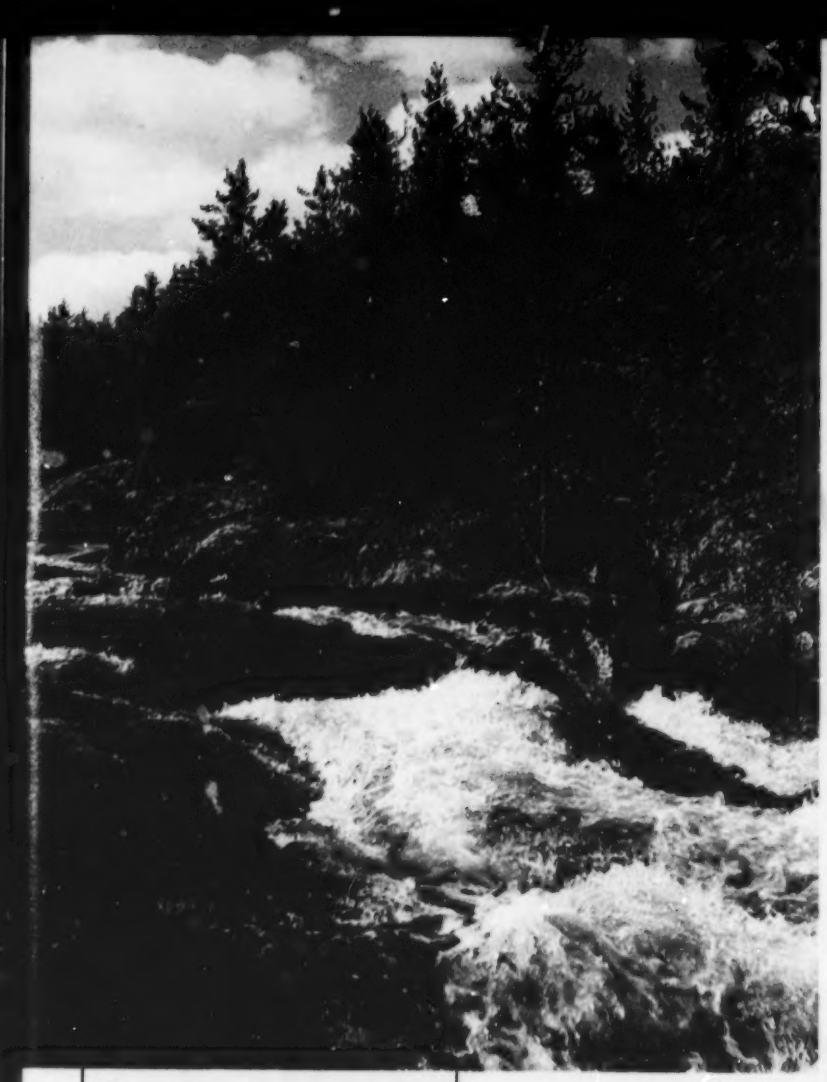
logs

Pulp and Paper Division

construction lumber

pulp to paper mills

kraft paper to bag manufacturing



Environmental Management

The enormous amount of water required in the pulp and paper mill is returned to the river system in a condition well within Government standards.

Manfor's forest management programs are designed to harvest renewable resources while at the same time helping to preserve the natural woodlands for the enjoyment of all Manitobans.

The Woodlands Division, in co-operation with the Province, decides when a given area is to be cut, ensures against forest abuse and monitors and facilitates regeneration.

In the last ten years, Manfor has expended over $5,000,000 on several hundred miles of permanent roads, opening up thousands of acres of undeveloped land and many beautiful lakes to fishermen, hunters and nature lovers.

Ongoing Opportunities

Manfor has played an important role in economic development and stability while enhancing the environment.

Since 1973, Manfor has been a major employer in The Pas and surrounding areas with over 1,000 people employed directly and indirectly on a contractual basis.

The impact of Manfor's presence is not restricted to its immediate employees. Over 100 retail and/or service outlets maintained in the immediate area and countless other operations province-wide benefit from Manfor's contribution to Manitoba's economy.

In the last ten years, the net cash flow from the Province to Manfor totalled about $14,000,000. However, Manfor's indirect cash flow back to the Province in the form of corporation capital tax, provincial sales tax and other items, stands at about $31,000,000. Thus, the direct and indirect cash return to the Government of the Province of Manitoba is approximately $17,000,000.

The Year 1982/1983

A number of factors led to to Manfor's operating loss of $16,075,000 in the 1982/83 fiscal year.

It was an exceedingly disappointing year for the forest products industry worldwide. Manfor was no exception. Manfor's leadership in unbleached kraft paper quality in Canada was challenged by reduced tariff protection and indiscriminate pricing by others in the marketplace.

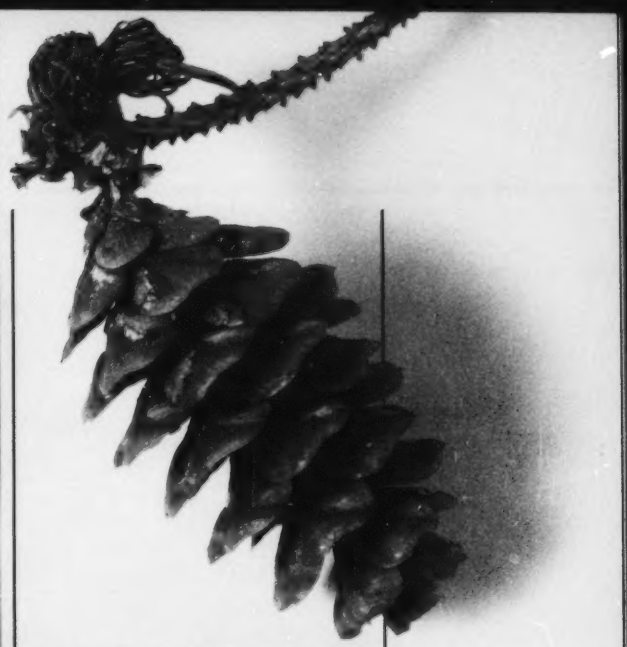
Other mills reacted to the weakening paper market with a product shift – sometimes to unbleached kraft paper. Manfor found itself in the position of being a specialist in unbleached kraft paper in an industry with many mills electing to produce some of our product line.

Future Promise

The realities of last year's market condition produced Manfor's largest deficit to date. No deficit is pleasant to report, but when placed in the proper perspective, it can provide impetus for re-evaluation of present operations and study of further options.

Manfor's blueprint for the future concentrates on opportunities presented by the unique characteristics of its resources and their place in a dynamic market.

Through a carefully designed strategy, Manfor is embarking on a three step program to further develop its operations.



Recapitalization

Manfor's recapitalization program was undertaken during the reporting year in reaction to two separate but related decisions made in 1973.

When Manfor commenced operations at that time, the capital losses incurred by the bankrupt Churchill Forest Industries (Manitoba) Limited and other predecessor companies were carried forward to Manfor's balance sheet as a capital deficit item. Since this total of approximately $50,000,000 had no relevance to Manfor, it has now been eliminated.

Although it was not an orthodox way of financing a new company, it was originally considered that Manfor could support heavy debt financing. Subsequent events proved such debt was inappropriate and the debt was converted to equity in 1983.

Investigations into development options for the Company resulted in recommended retrofit projects in both the Lumber and Pulp and Paper Divisions. These preliminary studies indicated a capital requirement in excess of $40,000,000.

The subsequent decision to proceed with the recommended modernization projects was made after careful analysis of their financial impact over the next ten years. The improvements are expected to virtually assure Manfor's future commercial viability.

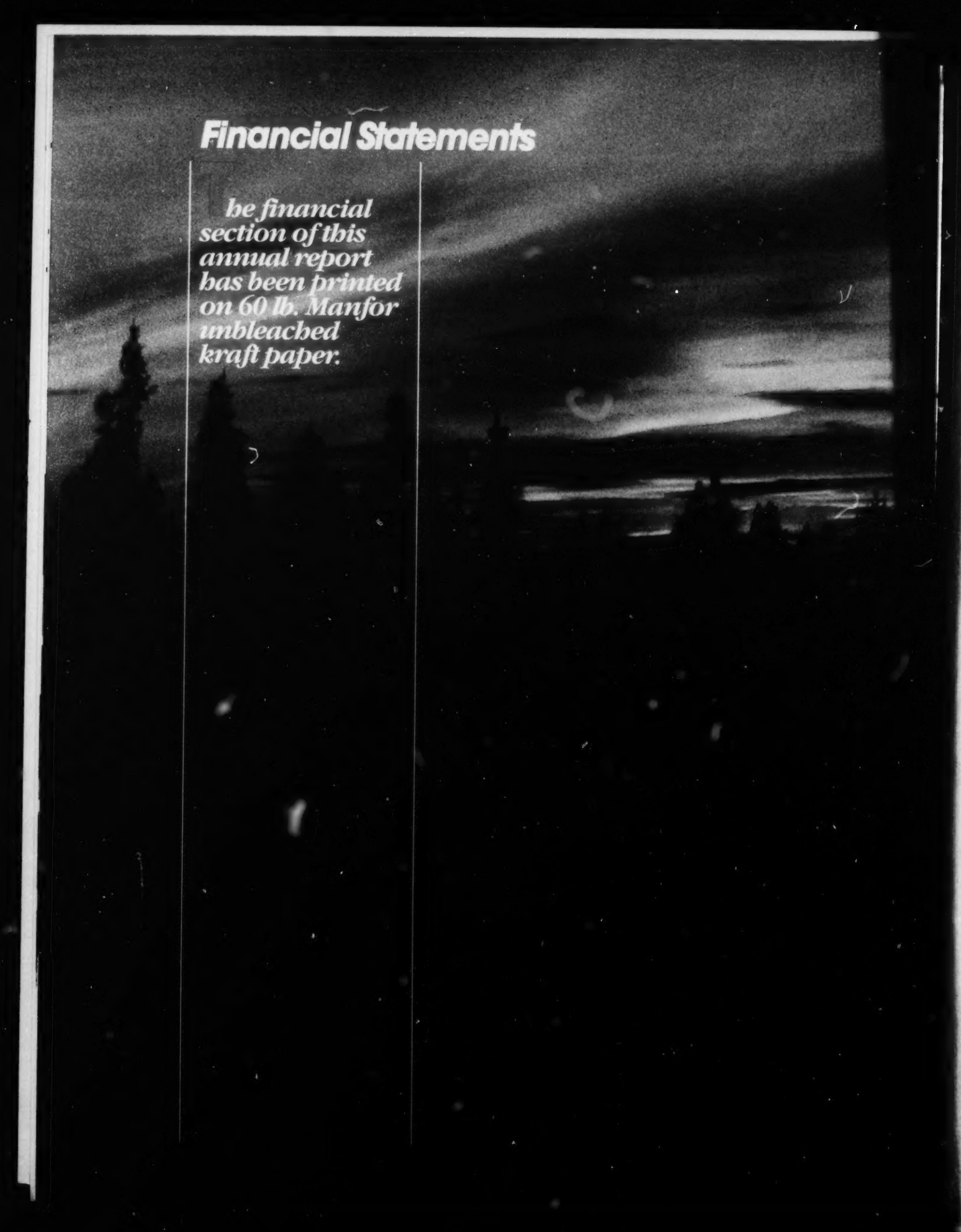
Product capacity changes in the Lumber Division are expected to be completed by October, 1984. In addition to enabling the Division to produce a broader range of lumber, the project will also result in a capacity improvement of approximately 40 per cent.

The project to improve the pulp and paper mill's product and capacity is scheduled for completion in late 1984. It will allow the production of unbleached kraft paper equivalent to or better than the highest quality multiwall papers in North America. It will also increase capacity by 8 to 10 per cent.

Reorganization

The year under review saw the Company President and Chairman move from Winnipeg to The Pas. Consequently, Manfor's head office has followed suit. The move represents Manfor's ongoing effort to improve communications and ensure integration within the company.

To this end our organizational structure has been altered. In addition to the Operating Divisions headed up by two General Managers, i.e. Lumber/Woodlands operations and Pulp and Paper operations, we have four Head Office Directors, each with his own particular functions and responsibilities. These are Administration, Finance, Human Resources and Marketing. The two General Managers and four Directors report directly to the President, and together with the President, form the Senior Management Team. By way of frequent, scheduled, Senior Management meetings, the flow of information and a timely, co-ordinated approach to decision making is assured.



Financial Statements

The financial section of this annual report has been printed on 60 lb. Manfor unbleached kraft paper.

Manitoba Forestry Resources Ltd. (Manfor)

Provincial Auditor's Report

MANITOBA

Province of Manitoba
Provincial Auditor

We have examined the balance sheet of Manitoba Forestry Resources Ltd. as at September 30, 1983 and the statements of capital deficit, operating deficit, operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at September 30, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

W. K. Ziprick

W. K. Ziprick, C.A.
Provincial Auditor.

December 16, 1983
Winnipeg, Manitoba.

Manitoba Forestry Resources Ltd. (Manfor)

Balance Sheet

as at September 30, 1983

ASSETS

	1983	1982
	(Thousands of Dollars)	
CURRENT		
Accounts Receivable – note 2	$ 10,915	$ 7,015
Inventories – notes 1 and 4	14,452	23,418
Prepaid Expenses	876	623
	26,243	31,056
LONG TERM RECEIVABLES – *note 3*	335	365
FIXED – *notes 1 and 5*		
Land, buildings, machinery, roads, logging facilities and equipment	103,856	102,583
Rental housing properties	1,844	1,844
	105,700	104,427
Less: accumulated depreciation	48,101	43,699
	57,599	60,728
DEFERRED CHARGES – *note 1*		
Start-up and development costs	11,381	11,381
Less: accumulated amortization	6,283	6,283
	5,098	5,098
	$ 89,275	$ 97,247

Approved on behalf of the Board

DIRECTOR

DIRECTOR

LIABILITIES

	1983	1982
	(Thousands of Dollars)	
CURRENT		
Bank indebtedness – note 6	$ 1,967	$ 4,910
Accounts payable and accrued liabilities	6,462	6,029
Current portion of mortgages payable	56	46
	8,485	10,985
LONG TERM DEBT – *note 7*	1,165	113,148
	9,650	124,113

SHARE CAPITAL AND DEFICIT

SHARE CAPITAL – *note 8*		
Common		
Issued – 20,000,000 shares	20,000	20,000
Preferred, note 9		
Issued – 140,020,028 shares	140,020	60,032
	160,020	80,032
CAPITAL DEFICIT – *note 9*	–	(51,271)
OPERATING DEFICIT	(80,395)	(55,647)
	79,625	(26,886)
	$ 89,275	$ 97,247

The accompanying notes and summary of principal accounting policies are an integral part of these financial statements.

Manitoba Forestry Resources Ltd. (Manfor)

Statement of Capital Deficit

for the year ended September 30, 1983

	1983	1982
	(Thousands of Dollars)	
BALANCE, BEGINNING OF YEAR	$ 51,271	$ 51,410
Recoveries from the Manitoba Development Corporation – note 9	—	139
Write-off of the Capital Deficit – note 9	(51,271)	—
BALANCE, END OF YEAR	NIL	$ 51,271

Manitoba Forestry Resources Ltd. (Manfor)

Statement of Operating Deficit

for the year ended September 30, 1983

	1983	1982
	(Thousands of Dollars)	
BALANCE, BEGINNING OF YEAR	$ 55,647	$ 41,829
Net Loss for the Year	24,748	13,818
BALANCE, END OF YEAR	$ 80,395	$ 55,647

Manitoba Forestry Resources Ltd. (Manfor)

Statement of Operations

for the year ended September 30, 1983

	1983	1982
	(Thousands of Dollars)	
SALES		
Pulp and Paper	$ 57,407	$ 54,596
Lumber	6,751	7,371
Other	671	746
	64,829	62,713
EXPENSES		
Cost of Sales, before depreciation – Schedule 1	62,265	51,693
Selling Expenses – Schedule 2	10,976	7,522
General and Administrative – Schedule 3	7,663	7,407
	80,904	66,622
OPERATING PROFIT (LOSS) BEFORE THE FOLLOWING	(16,075)	(3,909)
OTHER INCOME (EXPENSES)		
Interest	(3,140)	(4,971)
Depreciation – note 1	(5,284)	(5,205)
Gain (Loss) on sale of fixed assets	(79)	129
Insurance proceeds – net	–	295
Sales tax assessment	(40)	(157)
Write down fence post plant	(130)	–
	(8,673)	(9,909)
INCOME (LOSS) FOR THE YEAR	$ (24,748)	$ (13,818)

The accompanying notes and summary of principal accounting policies are an integral part of these financial statements.

Manitoba Forestry Resources Ltd. (Manfor)

Statement of Changes in Financial Position

for the year ended September 30, 1983

	1983	1982
	(Thousands of Dollars)	
SOURCE OF FUNDS		
Proceeds from sale of fixed assets	$ 208	$ 440
Recoveries from the Manitoba Development Corporation	–	139
Proceeds from Government Grant	167	–
Reduction in Long Term Receivables	30	10
	405	589
PROVINCE OF MANITOBA – *note 8*		
Issue of preferred shares	79,988	–
Issue of income debentures	4,401	1,700
Advances	6,953	10,567
	91,342	12,267
	91,747	12,856
APPLICATION OF FUNDS		
Applied to operations (net loss less depreciation and fixed asset losses)	19,257	8,742
Additions to fixed assets	2,737	3,891
Investment in notes receivable – note 3	–	356
Redemption of preferred shares – note 9	–	139
Decrease in mortgage payable	78	57
	22,072	13,185
PROVINCE OF MANITOBA – *note 8*		
Retirement of long-term debt	105,739	–
Repayment of advances	17,520	–
	123,259	–
Less: Capital deficit account written off	51,271	–
	71,988	–
	94,060	13,185
(DECREASE) IN WORKING CAPITAL	(2,313)	(329)
Working capital, beginning of year	20,071	20,400
WORKING CAPITAL, END OF YEAR	$17,758	$20,071
Represented by		
Current Assets	26,243	31,056
Current Liabilities	8,485	10,985
	$17,758	$20,071

Manitoba Forestry Resources Ltd. (Manfor)

Cost of Sales

for the year ended September 30, 1983
SCHEDULE 1

	1983	1982
	(Thousands of Dollars)	
Raw materials, work in process and finished goods at beginning of year – note 4	$ 17,006	$ 13,413
Production costs –		
Chemicals and fuel	9,294	8,918
Contract and purchased logs	7,765	7,682
Employee benefits	3,462	3,744
Log delivery expense	5,449	6,270
Maintenance supplies and expenses	5,388	6,796
Operating supplies and expenses	4,971	5,371
Salaries and wages	16,269	16,069
Other	656	436
	53,254	55,286
Raw materials, work in process and finished goods at end of year – note 4	(7,995)	(17,006)
	45,259	38,280
	$ 62,265	$ 51,693

The accompanying notes and summary of principal accounting policies are an integral part of these financial statements.

Manitoba Forestry Resources Ltd. (Manfor)

Selling Expenses

for the year ended September 30, 1983
SCHEDULE 2

	1983	1982
	(Thousands of Dollars)	
Commissions	$ 262	$ 252
Discounts	2,919	380
Duty, brokerage and taxes	194	162
Freight and storage	7,183	6,377
Other	221	168
Salaries and employee benefits	197	183
	$10,976	$7,522

Manitoba Forestry Resources Ltd. (Manfor)

General and Administrative Expenses

for the year ended September 30, 1983
SCHEDULE 3

	1983	1982
	(Thousands of Dollars)	
Communications	$ 178	$ 184
Insurance	573	569
Office supplies and expenses	518	453
Other	364	513
Professional fees	245	303
Property, business, capital and payroll taxes	1,465	1,352
Salaries, wages and employee benefits	4,214	3,911
Staff recruiting and relocation	106	122
	$7,663	$7,407

The accompanying notes and summary of principal accounting policies are an integral part of these financial statements.

Notes to Financial Statements

September 30, 1983

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the company.

(a) Inventories

Inventories are valued using the following methods:

Log inventories – lower of cost and net realizable value

Work in process (pulp chips, pulp, and lumber) – lower of cost and net realizable value

Finished goods (pulp, paper, and lumber) – lower of cost and net realizable value

Mill stores, chemicals, fuel, and other supplies – lower of cost and replacement cost

Cost is generally determined on an average basis.

(b) Depreciation

Depreciation is being applied on the following basis:

Fixed assets, except those pertaining to the Woodlands and Real Estate Divisions, and all mobile equipment, are depreciated on a straight-line pooled basis over twenty years. The cost of fixed assets removed less recovery from disposal proceeds is charged to accumulated depreciation. Gains and losses incurred on the disposal of fixed assets pertaining to the Woodlands and Real Estate Divisions and mobile equipment are credited or charged to operations.

Woodlands Division:

Camp buildings – straight-line over ten years

Logging equipment – hours used related to estimated total useable hours

Roads and Railspurs – timber delivered to the millsite related to estimated total yield of area serviced

Other equipment – straight-line over three to twenty years.

Real Estate Division:

Rental housing properties – straight-line over forty years

Mobile Equipment – hours used related to estimated total useable hours.

(c) Deferred Charges

Deferred charges consist of start-up and development costs of $11,381,000, being net expenditures by the Receiver on operations during receivership exclusive of depreciation charges and interest charges by the Manitoba Development Corporation. The company established a policy of amortizing the deferred charges to the extent of income available in each year.

(d) Foreign Exchange

Current assets and liabilities of the company expressed in United States dollars are translated into Canadian dollars at the rate of exchange on the balance sheet date. The resulting net gain or loss is reflected in operations.

(e) Restatement of 1982 figures

Certain 1982 figures have been reclassified to provide proper comparisons to 1983. There was no change to the overall 1982 results.

2. ACCOUNTS RECEIVABLE

	1983	1982
	(Thousands of Dollars)	
Trade	$ 10,419	$ 5,980
Due from Receiver	117	117
Other	379	918
	$ 10,915	$ 7,015

3. LONG TERM RECEIVABLES

During the previous year, camp facilities at Talbot Lake were sold to Moose Lake Loggers Ltd. Repayment of the note is based on production purchased from Moose Lake Loggers Ltd. with interest based on floating current rates.

4. INVENTORIES

Inventories consist of the following:

	1983	1982
	(Thousands of Dollars)	
Production raw materials –		
Log inventories – at cost	$ 9,068	$ 10,734
Less adjustment to net realizable value	5,153	1,990
	3,915	8,744
Hog fuel – at cost	216	97
	4,131	8,841
Work in process and finished goods –		
Work in process –		
Pulp chips	665	2,073
Pulp	34	43
Lumber	203	363
Other	9	32
	911	2,511
Finished goods –		
Pulp	844	1,859
Paper	1,824	3,001
Lumber	285	794
	2,953	5,654
	3,864	8,165
Raw materials, work in process and finished goods	7,995	17,006
Other –		
Mill stores	5,312	5,246
Chemicals and fuel	671	657
Other supplies	474	509
	6,457	6,412
	$ 14,452	$ 23,418

5. FIXED ASSETS

Land, building, machinery, roads, logging facilities and equipment, except the machinery plant, were valued on the basis of inventoried expenditures to the date of receivership, January 7, 1971, amounting to $64,753,000, including a reasonable assessment for engineering and supervision fees and interest charges. The Engineering Division fixed assets were valued at $500,000 on the basis of an estimated useful value to the integrated operations at January 7, 1971. Subsequent fixed asset additions and construction in progress as at September 30, 1983, have been recorded at cost. The company has deducted government grants received from the cost of fixed assets acquired. These grants aggregated $12,324,000 as at September 30, 1983.

6. BANK INDEBTEDNESS

	1983	1982
	(Thousands of Dollars)	
Bank loan	$ 900	$ 4,500
Bank overdraft	1,067	410
	$ 1,967	$ 4,910

The company's bank indebtedness is secured by inventories and a general assignment of accounts receivable and an assignment of fire insurance on inventories.

7. LONG TERM DEBT

	1983	1982
	(Thousands of Dollars)	
Mortgages payable on rental properties with interest rates from 6% to 10½% maturing 1995 to 2006	$ 1,221	$ 1,289
Less – current portion	56	46
	1,165	1,243
Province of Manitoba 7% first mortgage debenture maturing in 1998	–	45,000
9% non-cumulative income debenture maturing in 1998	–	28,000
9% non-cumulative income debenture maturing in 2003	–	23,488
9% non-cumulative income debenture maturing in 2004	–	3,150
9% non-cumulative income debenture maturing in 2007	–	1,700
	–	101,338
Advances	–	10,567
	–	111,905
	$ 1,165	$113,148

The long term debt owing to the Province of Manitoba was converted to preferred share capital as explained in note 8.

8. SHARE CAPITAL

The authorized share capital of the company is comprised of the following:
Common shares:
Unlimited number of shares of $1 par value. A restriction of 25,000,000 maximum number of shares was removed during the fiscal year ended September 30, 1983.
Preferred shares:
Unlimited, non-participating, non-voting preferred shares, carrying a non-cumulative dividend entitlement of 7%, redeemable at $1 per share. A restriction to 85,000,000 maximum shares was removed during the fiscal year ended September 30, 1983.

The Company is wholly-owned by the Province of Manitoba and is incorporated under the authority of The Manitoba Natural Development Act.

As authorized by order-in-council #1296 dated November 30, 1983, $123,259 thousand of debentures and advances owing to the Province of Manitoba as at April 1, 1983 was converted to preferred shares. The particulars of the debentures and advances were as follows:

	1983	1982
	(Thousands of Dollars)	
Debentures outstanding at September 30, 1982		$101,338
Debentures issued October 1, 1982 to April 1, 1983 to provide additional funding		4,401
Debentures outstanding at April 1, 1983		105,739
Advances outstanding at September 30, 1982	$10,567	
Advances issued October 1, 1982 to April 1, 1983 to provide additional funding	6,953	17,520
Debentures and advances outstanding at April 1, 1983		$123,259

Notes to Financial Statements

September 30, 1983

8. SHARE CAPITAL (CONTINUED)

Changes in preferred shares during the fiscal year ended September 30, 1983 were as follows:

Preferred shares outstanding at September 30, 1983	$ 60,032
Less: Reduction in the issuance of preferred shares to offset the write-off of the capital deficit as explained in Note 9	51,271
	8,761
Add: Conversion of debentures and advances to preferred shares as explained above	123,259
Preferred shares issued during the fiscal year to the Province of Manitoba for additional funding	8,000
Preferred shares outstanding at September 30, 1983	$140,020

9. PREFERRED SHARES AND CAPITAL DEFICIT

As explained in note 9 of the preceding fiscal year, the Capital deficit consisted of the expenditures made by the Manitoba Development Corporation in excess of the inventoried net value of the assets established at the date of receivership, January 7, 1971. Subsequent adjustments to the Capital deficit, which was financed by preferred shares, and to the preferred shares were made under an agreement between the Province of Manitoba, the Manitoba Development Corporation and the Company, requiring the Manitoba Development Corporation to carry out the necessary remaining actions with regard to the receivership and paying the necessary charges and making appropriate recoveries. The Province of Manitoba was to reimburse the Manitoba Development Corporation for payments made and to receive from the Corporation any recoveries realized. The Company was to reflect the net payments or recoveries by the Province of Manitoba through an issue or cancellation of its preferred shares and an adjustment of capital deficit.

*As authorized by order-in-council * 1296 dated November 30, 1983, the capital deficit as at April 1, 1983, amounting $51,271 thousand, was written-off. Transactions subsequent to April 1, 1983 under the terms of the aforementioned agreement involve only the Province of Manitoba and the Manitoba Development Corporation.*

10. COMMITMENTS

Estimated expenditures to complete the construction in progress and commitments to purchase equipment amounted to approximately $1,764,000 as at September 30, 1983 (1982- $1,755,000)

11. ECONOMIC DEPENDENCE

The Corporation is economically dependent on the Government of the Province of Manitoba.

12. SUBSEQUENT EVENTS

The Company is proceeding with a modernization program and has contracts with respect to the acquisition of fixed assets of approximately $7,500,000 pertaining to the program.

13. FISCAL YEAR

Consistent with the Company's management reporting system, the fiscal year end date was September 24, 1983 being the last Saturday in September which is consistent with prior years. There were no material transactions between September 24, and September 30, 1983.

Woodlands Division

The Resource

The Woodlands Division is responsible for procuring all pulpwood and sawlogs for the Lumber and Pulp and Paper Divisions. This task is performed by Manfor employees working out of Company owned and operated camps, contractors' employees operating in Company owned limits and operators harvesting within their own limits.

The Woodlands Division, and consequently the entire Manfor operation, depends on the continued health of the forest for its future. For this reason and in consideration of central Manitoba's environmental balance, the Woodlands Division has developed and implemented a complete forest management program.

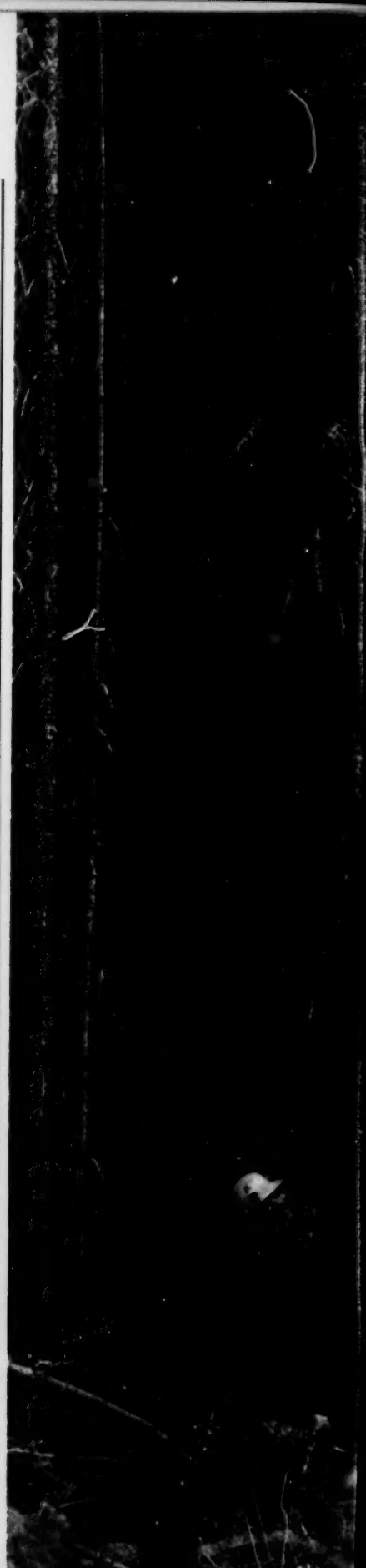
Working in co-operation with Government foresters, the Division decides when a given area is to be cut, ensures against over cutting, erosion, and other abuse and monitors and facilitates regeneration. This program makes for a heathier forest with a more productive future.

The Year in Review

Under capacity production conditions, the Woodlands Division is required to cut and deliver about 750,000 cubic metres of wood per year – 640,000 to the pulp and paper mill and 110,000 to the sawmill.

1982/83 saw the harvest reduced to an all-time Company low of 425,000 cubic metres. The effects of this decline in volume were felt throughout the Woodlands operation.

One Company camp was shut down for the year and all cutting operations were suspended for three months in the spring and early summer of 1983.



In addition, Conlin Camp was permanently closed during the year and its operation transferred to the Wabowden commuter camp.

Weather conditions also affected the operation. The mild winter caused delays in winter road preparation resulting in additional costs and wet summer conditions hampered deliveries.

On a more positive note, the Woodlands Division undertook an eight week tree thinning program and an experimental full tree chipping program.

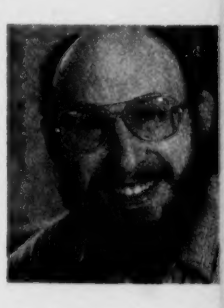
An increase of lost time accidents in the reporting year prompted the Division to provide new work safety programs for its employees. A seminar on the proper maintenance of power saws and the filing of power saw chains was conducted for the benefit of cutters. A video presentation on safe cutting techniques was also produced in an effort to decrease job accidents.

The Woodlands Division continued to plan ahead in 1982/83 with a number of forest management projects.

An agreement was reached between the Company and the Province making Manfor responsible for the reforestation of harvested areas. This agreement represents a real opportunity for Manfor to demonstrate its concern for the forest as a resource and as an integral part of Manitoba's ecological structure.

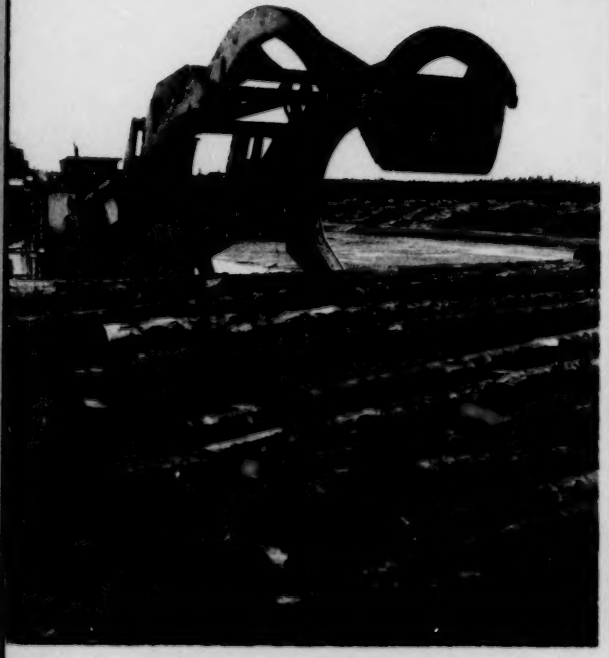
The agreement calls for 8[illegible] per cent of the areas annually cut to be reforested by [illegible] and a full 100 per cent by [illegible]

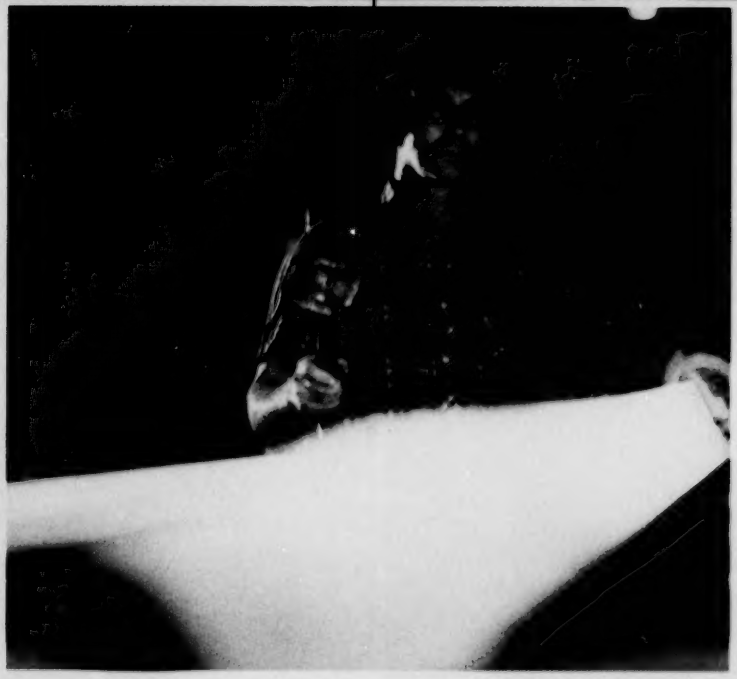
The Company plans to scarify 1,350 hectares of forest land for natural regeneration in 1984. Some 200 hectares have also been set aside for the planting of Manitoba-grown seedlings. By 1988, this program will see the planting of 4,000,000 seedlings per year over a total area of 2,000 hectares.



One of over 2,000,000 nursery seedlings scheduled for replanting as part of Manfor's extensive reforestation program.

Lumber Division



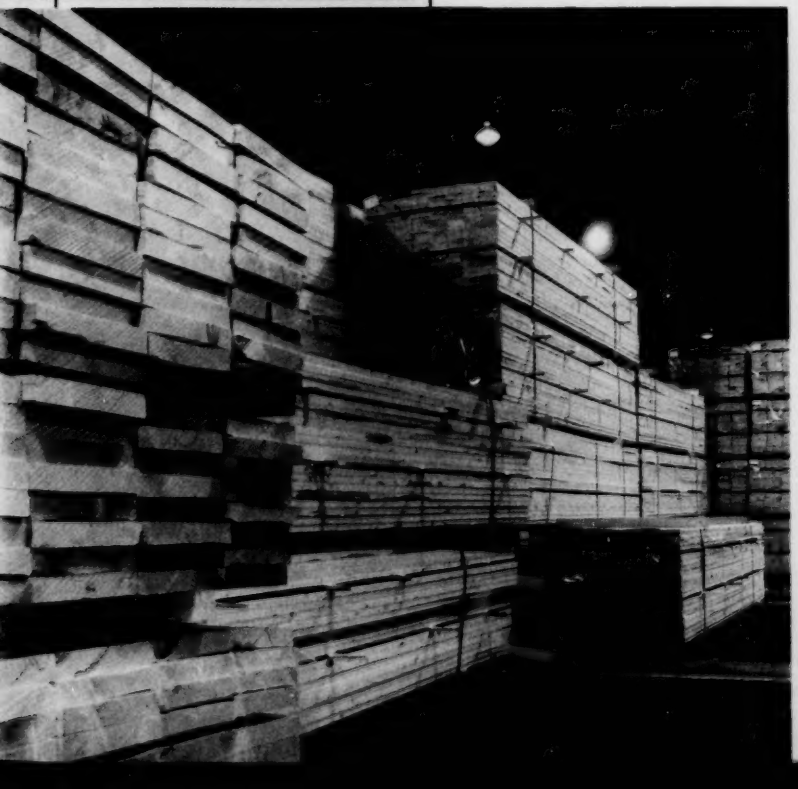


The Product

Manfor produces dimension lumber from spruce and pine for use in the domestic and U.S. construction trade. In most years, more than half the volume of lumber produced is exported.

The slow-growing characteristics of Manitoba trees result in a high specific density and consequently stronger lumber. Manfor's kiln dried standard grade lumber weighs up to 145 lbs. more per thousand board feet than the equivalent grade produced in many other areas of Canada. Builders prefer the denser lumber for its superior nail holding ability and stress factors.

Almost 100 per cent of Manfor's lumber is kiln dried which helps alleviate element-induced warping characteristics of dense lumber.



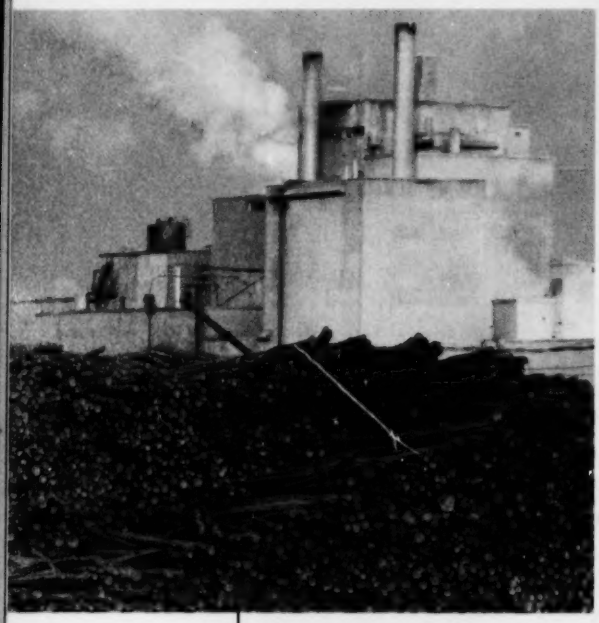
The innate characteristics of Manfor's trees produce a product of superior strength and quality.

The Year in review

The year under review was one of dramatic ups and downs for lumber producers. The season opened for Manfor on a positive note with lumber prices up somewhat from the extreme lows of 1981/82. Prices continued to rise throughout the second and third quarter to a record high. By July, however, prices began their descent, tumbling by $110 per thousand board feet in just six weeks.

A series of minor but effective changes were made to the operation. For example, the log sorter/chip plant was closed and the maintenance of mobile equipment was combined with that of the Woodlands Division.

Pulp and Paper Division



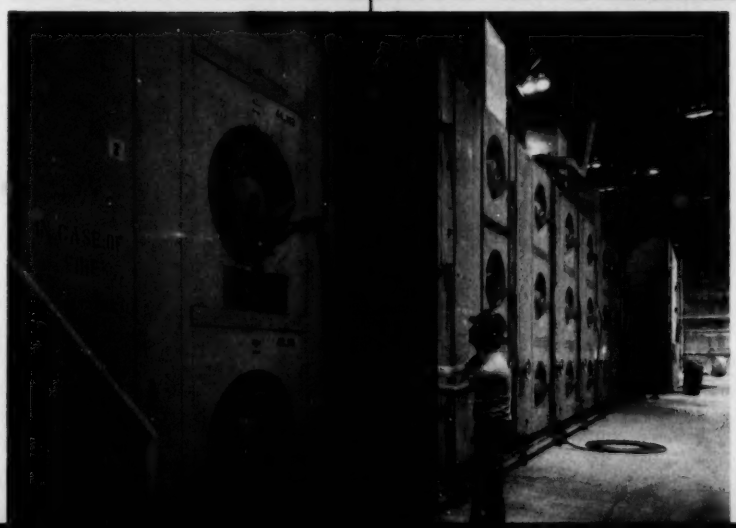
The Product

As the name suggests, the Pulp and Paper Division produces both products in a production ratio which fluctuates with market demand or price. The mill manufacturing capacity is about 400 tons per day.

Manfor's unbleached kraft paper is used primarily for the manufacturing of commercial bags by Canadian converting plants and in world markets. Unbleached pulp is sold to manufacturers for subsequent processing into other paper products.

Manfor's unbleached kraft paper is recognized for its excellent quality. In order to maintain a competitive position in the market place, modernization and upgrading have become top priorities.

In the fiscal year 1982/83, $1,000,000 was expended to improve the quality of pulp produced. Customer reaction to the "cleaner" product has been favourable.



The Year in review

World inventories of pulp and paper were abnormally high. This coupled with tough competition from U.S. producers due to decreased tariff protection combined to create the worst market decline in Manfor's history.

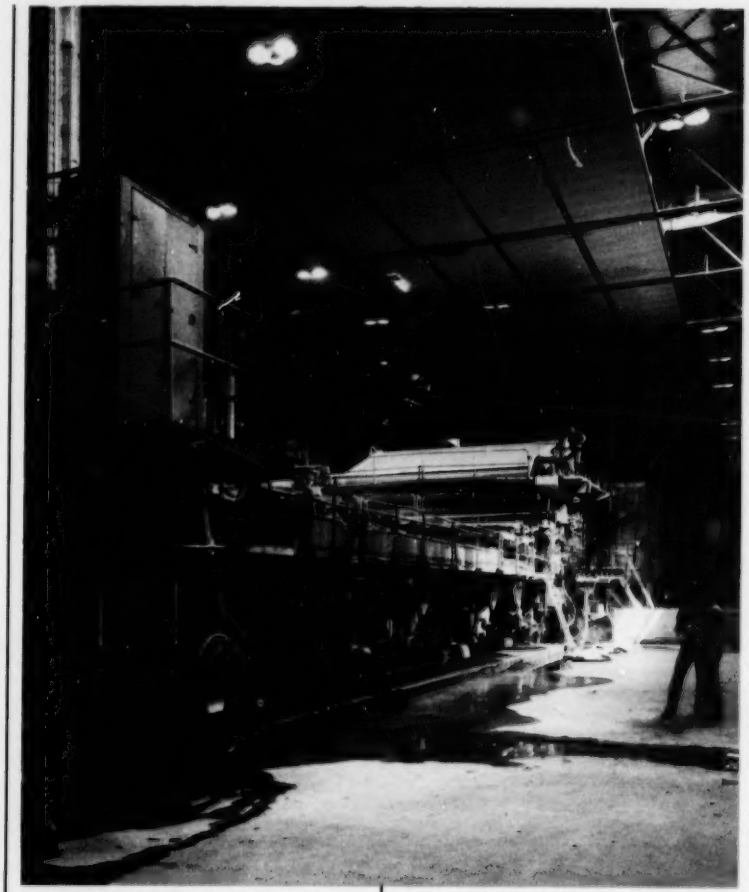
Mill net selling prices (the value realized by the mill after sales and shipping expenses) of both pulp and paper continued their decline from the preceding year.

A lack of sales necessitated curtailment of production to 89 per cent of available operating time. During the shut down periods, required maintenance was performed by Company employees to minimize lay-offs.

The Pulp and Paper Division is the largest user of energy within the Manfor operation. Since it ranks third after raw materials and labour in total production costs, energy conservation has become an important consideration.

The shift from Bunker "C" fuel to hog fuel initiated in 1978 continues to produce excellent results. The initial project sought to displace Bunker "C" with less expensive hog fuel

Manfor's unbleached kraft paper is a popular choice at the check out stand because of its strength and toughness.



available from forest industry plants within economical hauling distance from the mill site. This objective was reached with the help of a grant from the Federal Government.

Since the mid 70's, a number of low cost rebuild projects have also been undertaken to improve overall energy efficiency. It is estimated that Manfor's energy costs would have been about $5,000,000 higher in the year under review if such energy programs had not been introduced.

The maintenance planning and scheduling program initiated in 1981 has held maintenance costs on course for the last three years. The computerization of stores inventory and purchasing has been effective in the implementation of this program. Sales and invoicing are now also computerized along with technical, control data and budgeting. Further computerization is being actively pursued.

The year under review was one of growth, change and structural reorganization within the Company.

Employee Representation

The shareholder and the Company identified a need to appoint employee representatives from each of its two unions to Manfor's Board of Directors. These appointments were made at a time when the Company, through its new operational and administrative philosophy, adopted plans to maximize employee involvement, potential and participation.

Human Resources

Human Resources was created as a major service unit during the reporting year. Through the process of centralization, existing personnel and responsibilities were transferred to, and report directly to, the Director of Human Resources. These functions include Real Estate and Public Relations.

Despite the 1982/83 economic impact, lay-offs were kept to a minimum by utilizing Company employees in programs normally handled by outside contractors. Manfor maintained a level of productivity and efficiency that surpassed previous years.

A better understanding of issues between management, union members and staff resulted in an improvement in labour relations during the year. As part of the effort to continue this trend, Manfor has adopted and published a management philosophy which places emphasis on employee involvement.

Comprehensive Human Resource and organization development programs will increase common understanding and improve the Company's long term stability. These programs have been initiated in the areas of organization, development, manpower planning, succession planning, training and communications and employee relations.

Administration

The Accounting sections of all divisions were amalgamated under the Director of Administration together with Computer Operations, Internal Audit, Purchasing and Stores.

The Director of Administration is responsible for all accounting procedures, practices and policies. He also ensures the process by which those policies are reviewed and enacted is followed in accordance with corporate financial guidelines. The essence of this reorganization is to bring into perspective functions that relate directly to the administrative side of the operations.

Sales and Marketing

During the reporting year, Manfor embarked on a new and aggressive business development program which included the appointment of a Director of Marketing.

The move was initiated to help establish a balance and common purpose to sales functions and to further develop markets for Manfor's high quality paper grades and lumber products.

By acknowledging the need for an organization and market strategy by which the Company could maintain its presence and establish a lead role in the production and sale of specialized paper grades and with ongoing re-evaluation of sales and marketing strategies, Manfor will maximize returns and ensure long term stability of sales to its customers.

Manitoba Forestry Resources Ltd. (Manfor)

Ten Year Financial Review

for the years 1974-1983 ($000's omitted)

	1983	1982
Gross Sales		
Pulp and Paper	$ 57,407	$ 54,596
Lumber	6,751	7,371
Other	671	746
Total Gross Sales	64,829	62,713
Cost of Sales	62,265	51,693
Operating Expenses	18,888	14,662
Operating Profit (Loss) before Interest and Depreciation Expense	(16,324)	(3,642)
Interest Expense	3,140	4,971
Depreciation Expense	5,284	5,205
*Income (Loss) for the Year**	$ (24,748)	$ (13,818)

**Notes – Certain figures have been reclassified to maintain consistency over the ten year period.*
– In addition to the expense items noted above, operating losses incurred by predecessors, and shown on our balance sheet as start-up and development costs, totalling $6,283,000, were written off over the ten year period.

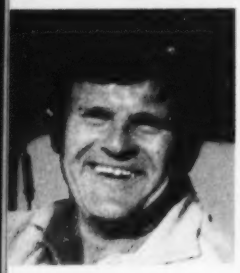
Manfor has made a cash operating profit in 5 out of the 10 years under review, despite the fact that this 10-year period included two of the most severe recessions experienced in the forest products industry since the 1930's – 1975/1978 and again commencing in 1981 to the year under review. In spite of the severity of these two recessions the cash operating profit over the past 10 years was $15,000,000.

However, the Company was required to account for depreciation (a non-cash item of approximately $51,000,000), interest expense to our shareholder of about $33,000,000, interest expense to the banks of $5,000,000 and the write-off of losses incurred by our predecessor of some $6,000,000, and in the process accumulated a deficit of $80,000,000.

- *Total sales in excess of $550,000,000 of which sales outside Manitoba were in excess of $475,000,000 including sales outside of Canada of $230,000,000 to more than 25 countries.*
- *Positive cash flow from operations in excess of $40,000,000 before Provincial charges.*
- *A cash expenditure in excess of $38,000,000 to improve and expand the physical facilities.*
- *Average annual direct and indirect employment of 1,000 persons in Northern Manitoba.*
- *Direct payroll costs, including fringe benefits, in excess of $220,000,000.*
- *In excess of $9,000,000 paid in municipal taxes.*
- *Considering direct and indirect payments, positive cash flow to our shareholder of some $17,000,000.*

1981	1980	1979	1978	1977	1976	1975	1974
$ 67,251	$ 59,095	$ 48,179	$ 41,498	$ 32,418	$ 31,244	$ 33,113	$ 35,754
10,525	11,674	15,129	13,367	9,759	6,951	5,218	10,161
780	1,273	917	696	541	674	486	360
78,556	72,042	64,225	55,561	42,718	38,869	38,817	46,275
56,200	46,496	43,592	42,976	36,687	32,777	28,330	25,985
15,073	14,335	11,503	13,145	9,612	8,905	6,812	9,167
7,283	11,211	9,130	(560)	(3,581)	(2,813)	3,675	11,123
3,475	3,276	3,947	4,519	4,927	3,974	3,336	3,379
5,413	5,241	5,171	5,345	5,164	4,927	4,753	4,167
$ (1,605)	$ 2,694	$ 12	$ (10,424)	$ (13,672)	$ (11,714)	$ (4,414)	$ 3,577

In Acknowledgement



Manfor has had a turbulent past. In an industry subject to the peaks and valleys of business cycles, this Company has been further handicapped by the tarnished reputation of its predecessor and the challenge of surviving with a resource base that many thought to be unworkable. Throughout all of that adversity it has had and continues to enjoy one tremendous advantage: its loyal and dedicated people.

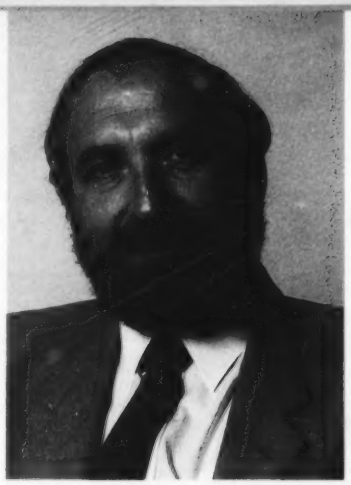
This report marks more than just ten years of paper production, lumber production, logs harvested and the financial performance that has been experienced. It is also, and perhaps even more so, a story about people. People who do what many say couldn't be done. People who took job uncertainty not once but several times in this past decade in their stride and chose to stay with the Company. People who make lumber and paper from trees that many say are too small to use and who do so with equipment that many said was too old.

That this report could even be written is not only because of an attempt by Government to utilize a resource to create employment. It is not only because of a continued interest by the Government as the shareholder. Nor is it only because Boards of Directors and senior managers worked hard to minimize losses in the tough years and maximize profits in the good years. These things were important to be sure but organizations survive because of the direct action of people at all levels and the combined will of those whose every day contribution make the difference between success and failure. The so called ordinary people of Manfor.

There are no ordinary people at Manfor. There are only all the extraordinary people who, throughout the years, have made it possible for Manfor to survive. All the extraordinary people who will now be turning their attention toward the future.

It is to all of these people, the employees of Manfor, that the Board of Directors wishes to extend a special acknowledgement. Without their contribution Manfor would have no past to report nor any future to contemplate.

MURRAY O. HARVEY
For the Board of Directors



The Honourable Wilson Parasiuk was the Minister Responsible for Manitoba Forestry Resources Ltd. for the period November 30, 1981 to November 3, 1983.

This was a very trying period of time for the Company. Not only was the Company faced with an economic recession but it became increasingly obvious that, with its out-dated physical facilities, some hard choices would have to be made if the Company, rather than being an asset to the people of Manitoba, was not to become a burden – with the inevitable end result.

The Honourable Wilson Parasiuk spent heavily of his time and energies in assisting Manfor to clarify the available options, select the best option, and ensuring that the Company would have the resources, both financial and human, to implement that option.

The Company wishes to recognize the conscientious and dedicated stewardship of Mr. Parasiuk during this period of the Company's history.

BOARD OF DIRECTORS 1982-1983

Murray O. Harvey
Chairman of the Board

K. J. Cassan, Director, The Pas
B. Garth Chambers, Director, Boissevain
P. J. Friesen, Director, Steinbach
W. L. Halverson, Director, The Pas
A. H. Rogowski, Director, The Pas
I. H. Schreyer, Director, Winnipeg
P. J. Demaré, Corporate Secretary

SENIOR MANAGEMENT

M. O. Harvey, President and Chief Executive Officer
O. W. Betts, Director of Administration
C. D. Bown, General Manager, Pulp and Paper Division
R. O. Clément, Director of Human Resources
P. J. Demaré, Director of Finance
W. E. Jonas, General Manager, Lumber/Woodlands Division

DIRECTORS AND SENIOR MANAGEMENT RETIRED DURING THE REPORTING YEAR

E. J. Hallgrimson, President and Chief Executive Officer (Oct./73-Apr./83)
H. J. Jones, Director (Apr./80-July/83)
J. D. Riley, Director (Mar./78-Oct./82)
R. F. Thomson, Corporate Industrial Relations Manager (Mar./76-May/83)
J. R. Wright, Director (May/78-Apr./83)

Manitoba Forestry Resources Ltd. (Manfor)

The Pas, Manitoba